IOWA CAPITAL INVESTMENT BOARD
2012 ANNUAL REPORT

BACKGROUND

The Iowa Capital Investment Board ("Board") was established in 2002 by an Act of the General Assembly (2002 Iowa Acts, House File 2078). The Board is created as a state governmental board. The purpose of the Board is to mobilize venture equity capital for investment that will result in a significant potential to create jobs and to diversify and stabilize the economy of the state of Iowa.

The Board consists of five voting members and four nonvoting members. The five voting members are appointed by the Governor and subject to confirmation by the Senate. The four nonvoting members consist of one member each appointed by the Majority Leader of the Senate, the Minority Leader of the Senate, the Speaker of the House and the Minority Leader of the House. (Currently, there are only three nonvoting members of the Board). The Board is a public board subject to public notice and open meetings. A listing of the voting and nonvoting members of the Board is attached to this report.

The primary duties of the Board include the following:

1) Develop a system for issuance, registration and authorization of tax credits for investments in qualifying businesses and community-based seed capital funds as provided in Iowa Code section 15E.43. This program provides for a tax credit equal to 20% of the equity investment in a qualifying business or community-based seed capital fund. The tax credit was capped at $10 million, and this cap was reached in January 2008. The Board has not issued any tax credits since January 2008 related to this tax credit program. This program was renewed by the Iowa legislature in 2011 as part of 2011 Iowa Acts, Senate File 517. This program is now administered by the Iowa Economic Development Authority.

2) Establish a system for the issuance and redemption of tax credits for investments in venture capital funds as provided in Iowa Code section 15E.51. This program provides for a tax credit equal to 6% of the equity investment in a venture capital fund. This tax credit was repealed by the legislature as part of 2010 Iowa Acts, Senate File 2380. The last tax credit certificates for this program were issued in September 2010.

3) Establish criteria and procedures for the issuance, transfer and redemption of contingent tax credits for investments made in the Iowa Fund of Funds administered by the Iowa Capital Investment Corporation as provided in Iowa Code section 15E.66. [1]

Therefore, the only current activity of the Board relates to the contingent tax credit certificates for investments made in the Iowa Fund of Funds. The activities of the Board during 2012 related solely to the contingent tax credit certificates related to investments in the Iowa Fund of Funds.

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[1] The maximum contingent tax credit that can be issued is $60 million in accordance with Iowa Code section 15E.66(1). 5% of the credit, or $3 million, is reserved for programs related to loan guarantees and other credit related enhancements to rural and small business owners in accordance with Iowa Code section 15E.65(2)(c). The remaining contingent credit available totals $57 million.

ACTIVITIES DURING 2012

The Board approved the issuance of a $57 million contingent tax credit certificate in February 2011 related to investments in the Iowa Fund of Funds with a final maturity date of February 22, 2012. This allowed the Iowa Fund of Funds to secure $40 million of financing from Regions Bank and the Bank of Oklahoma (the lenders) through a line of credit that was available until February 2012.

The Iowa Fund of Funds has committed to seven venture capital funds. As of February 2012, these funds have supported Iowa companies in Ankeny, Dubuque, Des Moines, Fairfield, Iowa City, Mason City and elsewhere in the state. These companies have received over $42.2 million in equity and debt financing and through the end of 2011 had 335 direct employees earning annual wages in excess of $18 million.

The Board had been advised by representatives of the Iowa Fund of Funds late in 2011 that the $40 million financing secured by the contingent tax credits may not be renewed in February 2012. In February 2012, the Board reissued the $57 contingent tax credit certificate with a maturity date of April 22, 2012 since the lenders agreed to a sixty day extension of the financing.

The Board subsequently met on March 15, 2012 for the first of five meetings that were held during 2012. At this meeting, the Board approved amendments to Chapter 4 of its administrative rules to set forth the detailed information needed by the Board to verify the amount of tax credits. It was evident to the Board at this time that the financing would not be renewed by the lenders, the Iowa Fund of Funds would not be able to get financing elsewhere, and some portion of the $57 million of contingent tax credits would become redeemable tax credits.

These rules were filed on an emergency basis, and became effective on April 4, 2012. The lenders filed for a temporary injunction in Polk County District Court to stop these rules from going into effect, contending that the rules exceeded the Board’s authority. At the time that the request for a temporary injunction was filed, the Board hired outside counsel from the Dickinson Law Firm in Des Moines to assist in its defense. The request for a temporary injunction was denied by the District Court on April 4, 2012, and the rules were allowed to go into effect. At this time, negotiations began between the Board, the Iowa Capital Investment Corporation, the Fund of Funds and the lenders to attempt to reach a resolution of these matters.

The Board next met on April 26, 2012. At that meeting, a new contingent tax credit certificate was issued with a maturity date of June 29, 2012, and some other technical changes were made to the certificate.

The Board next met on June 28, 2012. At that meeting, a new contingent tax credit was issued for $56,725,000 with a maturity date of July 31, 2012. The Board approved the issuance of a verified tax credit certificate of $275,000.

Also, a public hearing was held on July 19, 2012 to discuss the Board’s proposed changes to Chapter 4 of its administrative rules. After the April 4, 2012 denial of the temporary injunction, both the lenders and the Iowa Capital Investment Corporation submitted written objections to the Board’s rules changes. Comment was received at this public hearing voicing objections to the rule changes.

The Board next met on July 30, 2012 for a brief meeting. At that meeting, the Board was informed that an agreement was almost completed regarding these matters, and another meeting would be scheduled shortly.

The final meeting during 2012 was held on August 1, 2012. The Board was informed that an agreement has been reached among all parties involved in the Iowa Fund of Funds tax credit program. The Board agreed to the issuance of an additional verified tax credit certificate in the amount of $25,320,383. When added to the $275,000 verified credit issued earlier, the total verified tax credit was $25,595,383. A contingent tax credit was issued to the lenders for the difference between the $57 million and the $25,595,383, or $31,404,617. As part of the resolution, a Tax Credit Sales Agreement was reached whereby the lenders will sell $4 million of tax credits each year over the next six to eight years. These credit sales will first be offered to corporations who entered into an agreement with the Iowa Designated Investor, Inc. as part of a tax credit consortium agreement to purchase these tax credits. The proceeds from these tax credit sales will go to the lenders to satisfy their loans. This will enable the lenders to continue to advance funds to the Fund of Funds when capital calls are required to be made and to pay expenses. In addition, distributions received from the Fund of Funds related to their investments will also go to the lenders to satisfy their loans. These distributions have increased each year since 2008 and now total over $7.7 million.

In addition, the State of Iowa now has a subordinated note whereby after the lenders' debt has been satisfied, the state will be reimbursed for the tax credits that have been issued, as well as reimbursement for outside attorney fees and a .5% fee for expenses in issuing and selling the tax credits. The State will also receive interest on these amounts until they are satisfied. Also, the Fund of Funds program will terminate as of December 31, 2027, instead of the fifty year life provided in the original legislation.

In addition, the Board agreed as part of the resolution to amend Chapter 4 of its administrative rules to provide that if any information on the tax credit certificates conflicts with other provisions of the Board's rules, the information on the tax credit certificates will govern over the rules.

TAX CREDIT CERTIFICATES

As noted above, no tax credit certificates were issued in 2012 related to the tax credit for investments in qualifying businesses, community-based seed capital funds, or venture capital funds. Therefore, there are no changes from the 2010 report to the list of qualifying businesses, community-based seed capital funds, venture capital funds, and tax credits issued to each of investors in each of these businesses and funds. The Iowa Economic Development Authority will issue a report regarding the tax credits they issued for investments in qualifying businesses and community-based seed capital funds during 2012.

Iowa Fund of Funds

As of December 31, 2012, the Board has issued sixteen redeemable tax credit certificates to taxpayers totaling $6,192,007 of the total available credits of $25,595,383. In addition, the amount owed related to the State's subordinated note is currently $6,425,319.90 as of December 31, 2012.

FUTURE ACTIVITY

The Board will maintain its ongoing role to facilitate the sale of tax credits in accordance with the Tax Credit Sales Agreement.

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